

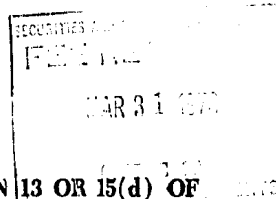
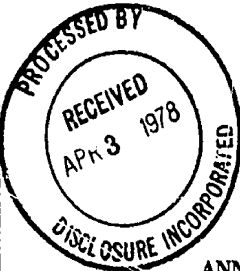
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549



Form 10-K

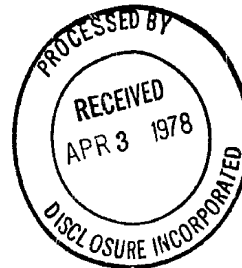
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1977

Commission file number 1-5026

GAF Corporation

(Exact name of registrant as specified in its charter)



Delaware

(State or other jurisdiction of
incorporation or organization)

13-0762027

(I.R.S. Employer
Identification No.)

140 West 51st Street, New York, New York

(Address of principal executive offices)

10020

(Zip Code)

Registrant's telephone number, including area code: (212) 582-7600

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Preferred Stock, par value \$1.00 per share	New York Stock Exchange
Common Stock, par value \$1.00 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of Class

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. Yes ☒ No

(APPLICABLE ONLY TO CORPORATE ISSUERS)

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report:

Common Stock 13,219,803 shares

Item 1. Business

GAF Corporation and its subsidiaries (collectively, the "Company") are engaged in three lines of business: the manufacture and sale of (i) chemicals; (ii) photographic and reprographic products; and (iii) building materials. Financial information concerning the Company's lines of business required by Item 1 is included under Item 2, "Summary of Operations". See also Note 15 of Notes to Consolidated Financial Statements for additional product group information.

In July 1977, the Company announced the discontinuance of its consumer photo operations, as well as of its dyestuffs and pigments operations, felt and filters operations and a small industrial chemical distribution business serving the mid-South. In January 1978, the Company announced the discontinuance of its photo processing operations. In connection with these discontinuances, the Company provided with respect to 1977 an aggregate of \$121.1 million (\$66.8 million after tax benefit of \$54.3 million) as a reserve for loss on disposition of assets, as a liability for anticipated phase-out costs and as a write-off of intangible assets. See Note 2 of Notes to Consolidated Financial Statements.

At the present time the reserves established appear to be adequate to cover the costs associated with phasing out and selling the discontinued operations and converting others to other uses.

In September 1977, the industrial chemical distribution operation was sold for approximately \$2.5 million. In February 1978, the Company agreed in principle to transfer certain projector manufacturing assets at its Portland, Oregon plant to another company in the projector business. Under the contract being negotiated, the Company would manufacture projectors on a private label basis. In March 1978, the Company reached an agreement in principle to sell all of the Company's photo processing operations and certain related assets for approximately \$6.2 million. The transaction is anticipated to close in April 1978.

Chemicals

Principal Products

The chemical product sales group includes the following: *Surface-active agents* — Surface-active agents (or surfactants) possess detergent, emulsifying, dispersing and wetting properties and are used in the manufacture and compounding of detergents (primarily industrial), insecticides, pesticides, textiles, paper, leather, rubber, plastics and chemicals and in the production and refining of petroleum and mineral products. *Acetylene-Based Chemicals* — The Company processes acetylene, a very explosive gas, into a wide variety of acetylene-based chemicals, with uses in the manufacture of plastics, synthetic fibers, cosmetics, electroplating chemicals, pharmaceuticals, solvents and adhesives. *Specialty and Textile Chemicals* — These include bactericides and fungicides, leather tanning and finishing agents, textile treating chemicals, flame retardants, solvents, and carbonyl iron powders. *Industrial Organic Chemicals* — These compounds are used in the production of surfactants, dyestuffs, pharmaceuticals, defoliants, herbicides, growth regulators and other agricultural chemicals (agrichemicals), plastic stabilizers, electroplating chemicals, and photosensitive and other chemicals. *Latex Products* — These products include rubber and polymer lattices for rug backings, fabric coatings and paper coatings; latex foam backing for drapery fabrics; and latex adhesives for fabric lamination. *Other Industrial Products* — These products include roofing granules, paper and millboard products and noise control products.

The Company's chemical products are sold to users principally by its own sales personnel and, in some cases, by independent distributors.

Competitive Conditions and Seasonal Variations

The Company is the sole United States producer of a complete line of acetylene-based chemicals, although it competes with imports from a large foreign manufacturer. This foreign manufacturer has recently completed construction of a plant in the United States for the production of butanediol, a major product in the acetylene chemical line.

In the balance of its chemical business the Company faces competition from many companies, certain of which are substantially larger than the Company and offer a broader range of products. Competition in those areas of the chemical industry in which the Company is engaged is chiefly based upon price, product quality and reliability of supply. The Company believes that the great size and diversified nature of the chemical industry make it impossible to give a meaningful estimate of the relative position of the Company in this field.

Seasonal variations are not material to this product sales group.

Sources of Raw Materials

The raw materials used in the production of the Company's chemical products are purchased from a large number of outside sources, in many cases pursuant to supply contracts which are, in general, standard for the industry. Certain of the Company's raw materials, including acetylene, are obtained from single or limited sources pursuant to supply contracts. With respect to acetylene, the Company is supplied domestically at two locations by separate sources. The labor force at one of these sources has been on strike since January 24, 1978, which has curtailed operations involving acetylene and reduced profitability at one of the Company's plants. Were either of the sources to be discontinued for any other reason, the development of alternative sources of supply could also involve interruption of production and would probably result in increased costs.

Petroleum-based products are used in many of the Company's chemical manufacturing processes and consequently the price and availability of petroleum is material to the costs of operations.

Although this product sales group has from time to time in the past experienced difficulty in obtaining adequate supplies of raw materials, it has not experienced any significant shortages during the past few years.

Recent Developments

In early 1975 the Company entered into an agreement with Chemische Werke Hüls, A. G. ("Hüls") to construct and operate through an equally owned joint venture a butanediol manufacturing plant in Marl, West Germany, with a planned annual capacity of approximately 60 million pounds. The agreement provides that Hüls will supply acetylene to the plant from an adjacent manufacturing facility. The Company anticipates that the plant, which commenced production in early 1978, will permit it to compete effectively with the manufacturer which currently dominates the European butanediol market. Production has been lower than anticipated because European demand for butanediol has not developed as quickly as had been estimated; however, the Company believes that such demand will increase. See Note 4 of Notes to Consolidated Financial Statements.

The Company in 1977 completed construction of a facility at its Calvert City, Kentucky plant for the manufacture of polybutylene terephthalate ("PBT"). PBT is the basic material for a family of polyester resins which possess properties suitable for use in the automotive and electronics markets, among others. While the Company is one of a small number of companies which produce butanediol (see "Competitive Conditions and Seasonal Variations"), one of the basic raw materials for PBT resin, substantial competition is anticipated in the various PBT markets from a number of other manufacturers, certain of which are substantially larger than the Company.

During 1975, the agrichemical business was responsible for significant profits for the Company. Sales of agrichemical products, which the Company manufactures on a contract basis to the specifications of large purchasers, substantially declined during 1976 and 1977 with resulting adverse effects upon earnings. The contract for one of these products, COBEX[®], terminated March 13, 1977, and in connection therewith the Company received termination payments totalling \$3.7 million from United States Borax & Chemical Corporation.

See Item 5, "Legal Proceedings" for a discussion of pending litigation between the Company and Amchem Products, Inc. ("Amchem").

In January 1977 the Company announced an apparent shortage of silver and established a \$3.5 million reserve for loss as of December 1976. The Company has been conducting an extensive investigation of the shortage with the assistance of its outside auditors and law enforcement authorities.

In July 1977 the Company announced the discontinuance of its dyestuffs and pigments, felt and filters, inorganic chemicals, and industrial chemical sales operations. See page 1 and Note 2 of Notes to Consolidated Financial Statements.

Photo & Repro

Principal Products

The photographic and reprographic product sales group continues to include the following: **Pictorial Products** — including slide viewers and scenic slide and print assortments, and VIEW-MASTER[®] and TALKING VIEW-MASTER[®] stereo reels, viewers and projectors; **X-ray Products** — including x-ray film, developing chemicals, intensifying screens, cassettes, illuminators and daylight loaders for medical,

dental and industrial use; *Graphic Arts Products* — including film, paper, film bases, and chemicals used in photolithography, rotogravure printing, offset printing, photographic typesetting and photo-engraving; *Specialized Photo Products* — including aerial film and photographic materials for seismic recording, instrumentation, surveillance, and oscillography, and color chemicals for photofinishing; *Reprographic Business Systems Products* — including diazo reproduction equipment, sensitized reproduction materials used in such equipment, business forms, micrographic equipment and supplies, and drafting office supplies. The operation of radio station WNCN-FM in New York City is included for reporting purposes in this group.

Distribution of the Company's pictorial products is made through a field sales force consisting in part of the Company's own employees and in part of independent sales representatives or distributors. Sales are primarily to mass merchandisers and toy outlets. The Company's x-ray and graphic arts photo products are sold in part to distributors, and in part, along with specialized photo products, directly to users. The reprographic business systems products are sold in part directly by the Company's own employees and in part through independent dealers. The reprographic machines sold by the Company are serviced in part by the Company's own employees and in part by employees of such independent dealers who are trained by the Company.

Competitive Conditions and Seasonal Variations

The Company believes that it is the leading producer of stereo viewers and reels and that it is one of the two leading domestic producers of diazo reproduction equipment and diazo papers, plastic films and other diazo coated products. The diazo reproduction process, while suitable for copying engineering and architectural drawings because of its capacity to make larger copies, is limited in general applicability by the need for a translucent master sheet printed only on one side. The diazo process may be subject to increasing competition from other processes and may become subject to increased regulation. See "Environmental Control and Related Matters".

Domestic x-ray sales are dominated by two major producers with whom the Company competes.

The field of business forms produced pursuant to customer specifications is dominated by another company. The business forms products of the Company are sold principally in the northern part of the United States east of the Mississippi River.

The sales of the Photo & Repro Group in continuing operations are not subject to substantial seasonal variation, except for pictorial products which have peak sales in the last four months of the year.

Sources of Raw Materials

The Company purchases from several sources the raw materials and components (some of which are manufactured to its specifications) for the film and viewers manufactured by it. The price of silver, which is one of the more important raw materials used in the manufacture of film and photographic paper has risen sharply since 1972. The price of silver, based on the Handy & Harman daily New York quotations, ranged from \$1.39 to \$2.05 per troy ounce in 1972, from \$1.96 to \$3.28 per troy ounce in 1973, from \$3.37 to \$6.70 per troy ounce in 1974, from \$3.91 to \$5.23 per troy ounce in 1975, from \$3.82 to \$5.10 per troy ounce in 1976 and from \$4.29 to \$4.99 in 1977. Competitive factors have limited and still limit the Company's ability to implement price increases related to this increased cost. Accordingly, the increased cost of silver may continue to have a material adverse effect on the earnings of the Company unless substantial price increases can be effected or the price of silver declines.

Acetate film base used by the Company is manufactured by it. Other film bases, including polyester, are purchased primarily from domestic sources.

The raw materials and supplies used in the manufacture of reprographic business products are purchased from several sources and, although in some cases parts are built to the Company's specifications, alternate sources for such parts are available.

Recent Developments

In July 1977 the Company announced the discontinuance of its consumer photographic operations. In January 1978 the Company announced the discontinuance of its photo processing operations. See page 1 and Note 2 of Notes to Consolidated Financial Statements.

Direct operating profit (which excludes allocation of interest and certain other general corporate expenses) of the continuing operations of the Photo & Repro group improved slightly in 1977; however, it was lower than the direct operating profit of the continuing operations in 1975 and the immediately preceding years.

On April 30, 1973, the Company filed an antitrust action against Eastman Kodak Company ("Eastman") in the U.S. District Court for the Southern District of New York, seeking treble damages in an unstated amount and certain equitable relief, including the division of Eastman into ten separate and independent businesses, the dedication to the public of the trademark "Kodak" and disclosure and licensing on a royalty-free basis of all Eastman's present and future photographic patents and know-how.

The Company stated in its Complaint that it was the last remaining domestic competitor to Eastman in the manufacture of conventional amateur photographic film. The Company alleged that Eastman has forestalled innovation in the development of products incompatible with those of Eastman, and has made numerous changes in its products in order to make the products of its competitors unmarketable. The Complaint further alleged that Eastman has, in many areas of the photographic industry, monopolized the production and sale of photographic supplies, restrained trade, foreclosed markets, made illegal acquisitions and engaged in various other illegal acts and practices. Eastman filed an Answer denying the material allegations of the Complaint. Pre-trial proceedings are virtually completed and a trial date is due to be scheduled by the court.

In a companion case brought by Berkey Photo, Inc., in the same court, Eastman was unanimously found by a Federal jury, after a six-months trial, to have monopolized the amateur conventional film, color paper, and amateur conventional still camera market in violation of the Sherman Act. The jury further found that Eastman used its film monopoly to injure competition in other markets; that Eastman's arrangements with flash lamp manufacturers were also Sherman Act violations; and that Eastman committed Robinson-Patman Act violations. The jury subsequently awarded damages against Eastman in the amount of approximately \$37.5 million, which amount is to be trebled under applicable law. Eastman has announced that it will appeal.

The Company's \$9 million expansion of its photo product facilities in Sint-Niklaas, Belgium, announced in 1974, was completed in September 1977. The agreements relating to the development and financing of this project require that the Company have certain minimum numbers of employees at various times which would represent additions to the current work force. If present business conditions continue, however, it is expected that this plant will operate at substantially less than full capacity. In addition, as a result of the discontinuance of consumer photography operations, sections of these facilities are presently unutilized. The Company is considering manufacturing a variety of products using this plant area.

Two agencies of the British government have been engaged in investigations of certain practices, including pricing, of the members of the diazo industry in the United Kingdom, including the Company's British subsidiary. One of these agencies has issued a report which concludes that, while certain arrangements had been entered into without the registration required by applicable law, it is unable to determine that the public interest was adversely affected. As a result of the other investigation the subsidiary was required to register certain agreements. It is not anticipated that future proceedings, if any, which may be instituted would have a material adverse impact on the operations of either the British subsidiary or the Company.

Building Materials

Principal Products

The building materials product sales group includes the following: *Roofing, Siding and Insulation Materials* — including asphalt shingles, built-up roofing (consisting of organic and asbestos-based felts), asphalt roof coatings and plastic cements, organic and asbestos dry felt produced primarily for use by the Company's roofing or flooring plants, vinyl and mineral fiber siding, mineral fiber building board, mineral fiber canal bulkhead designed and processed to prevent land erosion by either salt or fresh water, automotive sound deadening and insulation products, and glass fiber insulation (purchased for resale); *Flooring Products* — including vinyl asbestos floor tiles, vinyl sheet floor coverings, and adhesives and cove bases (both purchased for resale).

The Company sells its products through its own salesmen to wholesalers, retailers, applicators, contractors and builders. Such sales are mostly limited, in the case of building materials other than floor tiles and sheet vinyl, to states east of the Rocky Mountains. Its products are also supplied, on a bid basis, to federal and state agencies. The Company operates its own distribution outlets for resilient flooring in eight cities where available outlets were deemed not satisfactory.

Competitive Conditions and Seasonal Variations

The building materials industry is highly competitive. The Company believes that it is one of the leading producers of asphalt roof shingles, built-up roofing, mineral fiber siding shingles, mineral fiber flat sheets, vinyl floor coverings, vinyl siding and automotive sound deadening and insulation products. One of the Company's largest customers for roofing materials has commenced producing its own materials, which will reduce certain of the Company's sales to such customer.

Competition in the roofing, siding and insulation segments of the Company's building materials business is based largely upon price, distribution capability, complementary product lines and credit terms. The floor covering segments of the business are subject to competition primarily on the basis of product design, variety of patterns and grades, prices and service.

The sales and installation of the Company's roofing, siding and insulation decline during the winter months due to adverse weather conditions. To maintain a more constant level of manufacturing and sales, the Company follows what is believed to be an industry-wide practice of "winter dating," pursuant to which advantageous credit terms are offered to credit-worthy customers who order and accept delivery of roofing, siding and insulation during the winter months.

Sources of Raw Materials

A major portion of the raw materials used for the manufacture of building materials is purchased from a large number of outside sources and the balance is produced by the Company, including roofing granules, which are used to surface asphalt roofing products.

Raw material ingredients for dry felt, which have been in good supply, are rags, waste paper, pulpwood and wood flour, purchased in the open market at prices which are subject to fluctuation. Asphalt is purchased from major oil refineries and independent operators, in one case pursuant to a long-term supply contract.

Recent Developments

Roofing products constitute the major portion of total sales of the building materials product sales group. It is believed that historically a majority of roofing products sold by the Company have been used in reroofing of existing structures. It is reported that housing starts were at a level of approximately 2,058,000 units in 1973, 1,353,000 units in 1974, 1,171,000 units in 1975, 1,537,000 units in 1976 and 1,986,000 units (estimated) in 1977. Despite the decline in reported housing starts between 1973 and 1975, the Company's sales revenues from roofing products increased in each of such years over the then prior years. The Company believes these revenue increases are attributable in large part to the reroofing market.

Start-up of a sheet vinyl flooring plant in Mullingar, Ireland is presently underway. The plant is owned and operated by GAF (Ireland) Company, a branch of GAF (Nederland) B.V., a wholly-owned subsidiary of the Company, and will be the Company's principal source of sheet vinyl for sale in Europe and other overseas markets. The Company anticipates that it will face substantial competition for its sheet vinyl products in the European market in view of competitors' plans for increased capacity to serve that market. Certain European countries have banned the use of products containing asbestos. The Company is unable to predict whether such a ban might be instituted in other markets. The Company is working to develop substitute materials. See "Environmental Control and Related Matters."

Patents and Trademarks

The Company owns approximately 1,520 domestic and 1,890 foreign patents and approximately 885 domestic and 2,930 foreign trademarks, and is licensed under many other United States and foreign patents, no one or group of which is deemed to be material to the conduct of the Company's business as a whole other than the patent covered by the license from Congoleum Industries, Inc. described below.

As a result of the settlement in May 1970 of a lawsuit commenced in 1966 against The Ruberoid Co., the Company entered into a license agreement with Congoleum Industries, Inc. whereby the Company was licensed to manufacture and sell foamed vinyl flooring which uses a chemical embossing process. In exchange for such license, the Company agreed to pay a royalty equal to 5% of the net sales of such product during the term of the agreement, which has a stated term ending on December 20, 1983 (the expiration date of the patent), and, in any event, the Company is required to pay a minimum royalty of \$125,000 a year through 1983, which amount is applied against royalties payable in each such year. Royalties paid under this agreement for 1973, 1974, 1975, 1976 and 1977 amounted to approximately \$964,000, \$719,000, \$166,000, \$681,000 and \$744,000, respectively.

Research and Development

Research and development expenses in 1976 (restated to exclude discontinued segments) and 1977 were \$11,912,000 and \$12,038,000, respectively. Approximately 65% of the amount spent in 1977 was used for research to develop new or improved products and processes, while the remaining 35% was used to enhance existing products and technologies. The latter category includes product quality improvements, improved formulations, and experimentally-developed new applications to exploit the full potential of existing products. During 1976, approximately 60% of research and development expenses was used for the development of new products and processes, while approximately 40% was used to enhance existing products and technologies.

As of March 1, 1978, 240 professional employees were engaged in Company-sponsored research and development.

Environmental Control and Related Matters

By reason of the nature of many of the Company's operations, environmental standards promulgated by various regulatory bodies, many of which have been established in recent years, are having or will have a substantial impact upon the Company. In some cases, the Company has obtained variances which are conditioned upon compliance at some future date, and in other cases it is seeking to work out similar arrangements. It is believed that federal and state statutes and regulations dealing with the protection of the environment will increasingly affect the Company. While the exact nature of the environmental control problems which the Company will encounter in the future cannot be predicted, substantial additional capital expenditures and increased operating expenses, the amount of which cannot be estimated at this time, will be occasioned by the Company's continuing effort to deal with environmental problems arising from its activities and to comply with the statutes and regulations referred to above. However, the Company believes that compliance with environmental protection requirements will not adversely affect its competitive position in the industries in which it is engaged. Pollution control requirements resulted in capital expenditures of approximately \$34,494,000 from 1973 through 1977. The Company currently has plans to invest an additional amount of approximately \$4,406,000 in pollution abatement facilities in 1978, \$2,755,000 in 1979 and \$7,705,000 thereafter. No assurance can be given that the amounts actually invested will not be larger.

Pollution control financing arrangements have been entered into with the City of Calvert City, Kentucky, the Broome County Industrial Development Agency (Broome County, New York) and the New Jersey Economic Development Authority pursuant to which pollution control revenue bonds were issued. All such bonds are unconditionally guaranteed by the Company and the proceeds were used in connection with pollution control facilities at the Company's chemical plant in Calvert City, Kentucky, photo products plant in Binghamton, New York, and chemical plant in Linden, New Jersey. The Company anticipates the use of similar types of financing for pollution control facilities at other locations.

The federal Occupational Safety and Health Administration ("OSHA") has promulgated numerous regulations dealing with various aspects of the Company's operations, including regulation of permissible levels of asbestos fibres in manufacturing facilities. The OSHA regulation applicable to asbestos processing and fabricating facilities established a permissible level in the occupational work atmosphere of five fibres of asbestos per cubic centimeter of air. This permissible level was reduced to two fibres per cubic centimeter on July 1, 1976. The Company's manufacturing operations were in substantial compliance with the five-fibre standard and its operations are designed to comply with the two-fibre standard. OSHA is presently proposing a further reduction in permissible level to one-half of an asbestos fibre per cubic centimeter of air. The outcome of this proposal and of the effect of any standards which may result therefrom cannot be predicted at this time. At present the Company is not aware of any adequate substitute for asbestos in the production of sheet vinyl.

On November 25, 1975, OSHA issued a proposed regulation governing various aspects of industrial use of ammonia. The comment period on these proposals expired in April 1976 and OSHA has not yet issued a revised proposal. Based upon present information, the Company believes that it will be able to comply with such regulations when and if issued. If OSHA were to adopt more stringent regulations than believed to be under present consideration, there could be a substantial impact on diazo operations.

The federal Toxic Substances Control Act is expected to have a significant effect on the Company's operations. The Company is presently submitting its lists of chemicals for inclusion in the initial inventory under this Act. As only preliminary regulations have presently been adopted, the nature and full extent of the impact of this legislation is not completely ascertainable at this time.

Employees

At February 28, 1978 the Company employed approximately 18,800 people. At such date, approximately 8,100 employees in the United States and Canada were subject to 67 union contracts, which are effective, in most cases, for two or three year periods. Employee relations at all of the Company's plants have been generally satisfactory.

The Company has in effect various benefit plans which include retirement plans and group insurance arrangements providing life, accident, hospital, surgical and medical coverage. The Company and, in most cases, the employees, contribute to the costs of the insurance arrangements.

International Operations

The Company's international operations, which are consolidated in the results of the Company's three product sales groups, include export of the products manufactured by the Company in the United States (principally its sheet vinyl, acetylenes and industrial photographic products) and the operations of the Company's foreign subsidiaries. Sales by foreign subsidiaries are principally in Western Europe. Subsidiaries are also active in Australia, Canada and elsewhere. For 1973, 1974, 1975, 1976 and 1977, the Company's international operations, including export sales from domestic operations, accounted for approximately 18%, 19%, 19%, 18% and 19%, respectively, of its net sales for such years. Currency fluctuations did not significantly affect the Company as a whole for 1977.

See Item 2, "Summary of Operations — Management's Discussion and Analysis of Summary of Operations" and Note 4 of Notes to Consolidated Financial Statements for information as to foreign operations. See "Chemical — Recent Developments", "Photo & Repro — Recent Developments", and "Building Materials — Recent Developments" for discussions of a new chemical manufacturing plant in West Germany, expansion of the Company's new European photo product facilities in Belgium, and a new sheet vinyl manufacturing facility in Ireland.

Item 2. Summary of Operations

The following data with respect to lines of business and summary of operations of GAF Corporation and Consolidated Subsidiaries should be read in conjunction with its notes and Management's Discussion and Analysis of Summary of Operations appearing in this Item and with the other consolidated financial statements and related notes appearing under Item 13, "Financial Statements."

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

LINES OF BUSINESS SUMMARY (CONTINUING OPERATIONS) (NOTE A)

	Year Ended December 31,				
	1977	1976	1975	1974	1973
	Dollars in Thousands				
Sales to Unaffiliated Customers:					
Chemical	\$200,905	\$190,939	\$177,194	\$167,109	\$137,613
Photo & Repro	267,538	240,255	220,820	216,791	181,968
Building Materials	474,218	421,702	372,312	360,599	303,379
Total	<u>\$942,661</u>	<u>\$852,896</u>	<u>\$770,326</u>	<u>\$744,499</u>	<u>\$622,960</u>
Direct Operating Profit (Note B)					
Chemical	\$ 45,582	\$ 40,911	\$ 43,066	\$ 45,859	\$ 32,334
Photo & Repro	3,865	2,197	6,295	8,479	13,352
Building Materials	40,381	44,058	47,897	42,633	38,216
Total	<u>\$ 89,808</u>	<u>\$ 87,166</u>	<u>\$ 97,258</u>	<u>\$ 96,971</u>	<u>\$ 83,902</u>

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

SUMMARY OF OPERATIONS (NOTES A and C)

	Year Ended December 31,				
	1977	1976	1975	1974	1973
	Dollars in Thousands				
Net Sales	\$942,661	\$852,896	\$770,326	\$714,499	\$622,960
Cost of Products Sold	681,737	607,867	530,786	511,542	421,670
Direct Operating Expenses (Note 8)	171,116	157,803	142,252	135,986	117,348
Direct Operating Profit (Note B)	89,808	87,166	97,258	96,971	83,902
General Corporate Expenses:					
Interest (Note D)	20,416	17,097	17,616	17,857	13,137
Other (Notes B, E and F)	59,101	20,929	16,551	22,265	9,716
Income from Continuing Operations before Income Taxes	40,291	49,140	63,091	56,849	61,049
Income Taxes	22,598	20,440	24,342	25,001	27,306
Income from Continuing Operations	26,703	28,700	38,749	31,848	33,743
Loss from Discontinued Segments, net of income tax benefits (Note 2)	(73,660)	(9,000)	(7,803)	(3,331)	(1,924)
Net Income (Loss)	\$(46,957)	\$ 19,700	\$ 30,946	\$ 28,517	\$ 31,819
Less Preferred Stock Dividend Requirements	3,636	3,635	3,635	3,705	3,726
Net Income (Loss) Applicable to Common Stock	<u>\$(50,593)</u>	<u>\$ 16,065</u>	<u>\$ 27,311</u>	<u>\$ 24,812</u>	<u>\$ 28,093</u>
Dollars					
Data Per Common Share					
Primary:					
Continuing	\$ 1.74	\$ 1.88	\$ 2.96	\$ 2.09	\$ 2.21
Discontinued	(5.56)	(.67)	(.60)	(.25)	(.15)
Net Income (Loss)	<u>\$(3.82)</u>	<u>\$ 1.21</u>	<u>\$ 2.00</u>	<u>\$ 1.84</u>	<u>\$ 2.06</u>
Fully Diluted:					
Continuing	\$ 1.55	\$ 1.68	\$ 2.24	\$ 1.81	\$ 1.85
Discontinued	(4.23)	(.52)	(.45)	(.19)	(.11)
Net Income (Loss)	<u>\$(2.68)</u>	<u>\$ 1.14</u>	<u>\$ 1.79</u>	<u>\$ 1.62</u>	<u>\$ 1.74</u>
Dividends Declared:					
Per Preferred Share	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20
Per Common Share	<u>\$.60</u>	<u>\$.58</u>	<u>\$.52</u>	<u>\$.46</u>	<u>\$.42</u>
Weighted Average Number of Shares of Common Stock Outstanding (in thousands)	<u>13,252</u>	<u>13,303</u>	<u>13,237</u>	<u>13,516</u>	<u>13,631</u>

Notes to Summary of Operations Follow.

Numerical Note References are to Notes to Consolidated Financial Statements.

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO SUMMARY OF OPERATIONS

Note A:

The Company reports its operations on the basis of responsibility accounting, whereby the various lines of business are measured after the assignment of only those items of income and operating expense for which each line of business is responsible. Accordingly, the Company does not provide for the allocation of interest and other debt expense, the cost of certain general corporate expenses, and certain miscellaneous expense and income items.

Note B:

Amounts have been restated for 1976 and prior years to reflect an increased identification of general corporate expenses with the operations of the product groups; 1977 is presented on a basis consistent with the prior years.

Note C:

Consolidated Statements of Income information is presented so as to segregate continuing and discontinued operations for all periods. See Note 2.

Note D:

Reflects an increase of approximately \$1.0 million per year as a result of retroactive capitalization of certain leases. See Note 13.

Note E:

During 1974, the Company relocated certain staff and administrative activities from its New York City offices to a new facility in Wayne, New Jersey and established a reserve for the estimated loss on its lease commitment and costs of relocation. Activity in the reserve has been as follows:

	1977	1976	1975	1974
	Dollars in Thousands			
Reserve balance at January 1,	\$1,205	\$2,424	\$2,661	\$ —
Increase(decrease) in reserve:				
Estimated relocation costs				5,045
Actual costs incurred	(419)	(469)	(896)	(2,394)
Revised estimate of sublease income	153	(750)	659	
Reserve balance at December 31,	\$ 935	\$1,205	\$2,424	\$2,661

The relocation costs have been reported as part of General Corporate Expenses — Other.

Note F:

Gains of \$5,523,000 and \$9,359,000 in 1974 and 1973, respectively, were realized on the reacquisition of 5% Convertible Subordinated Notes. Such gains have been reported as a reduction of General Corporate Expenses — Other.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF SUMMARY OF OPERATIONS

GAF has restated its Summary of Operations to reflect comparisons for continuing operations. The effects of the discontinuance of the consumer photo products, photofinishing, dyestuffs and pigments, and felt operations are shown as a single line item.

1977 Compared with 1976 — Continuing Businesses

Consolidated sales increased \$89.8 million (11%) to \$942.7 million in 1977 with record sales in all worldwide product sales groups, caused mostly by higher volume and, to a lesser extent, higher selling prices. Sales of Building Materials and Photo & Repro grew at 12% and 11% respectively, while Chemical's were 5% higher. The Chemical sales growth of \$10.0 million to \$200.9 million reflects good improvement in all major product lines, offset by a sharp decline in the sales of agricultural chemicals. A large increase in roofing products was the primary cause for the \$52.5 million gain in Building Materials sales. The major contributors to the growth of Photo & Repro were reprographic and industrial photo products. International (including export) sales grew 14%, with the largest gains in reprographic, graphic arts, sheet vinyl and chemical products.

Direct operating profit improved \$2.6 million with gains in Chemical and Photo & Repro and with lower earnings in Building Materials. Chemical profits were \$4.6 million (11%) ahead of last year, including a \$3.7 million contract termination payment. Higher earnings in most of GAF's chemical products were moderated by the decline in agricultural chemical sales, and by higher manufacturing costs which were partly caused by weather related production problems in the first quarter. Building Materials profits were off in the first half of the year as a result of the severe winter and higher manufacturing and raw material costs for roofing products, and did not begin catching up until higher prices were effectuated later in the year. Also, Irish start-up expenses and higher costs affected sheet vinyl profits. The direct profit of Photo & Repro increased \$1.7 million to \$3.9 million largely due to higher volume of reprographic products offset by decreases in View-Master® products.

Interest increased \$3.3 million due to a higher level of debt and higher interest rates. Other general corporate expenses decreased \$0.9 million (4%). Increased legal fees related to the Eastman Kodak lawsuit and normal cost increases were more than offset by a \$2.2 million favorable settlement of a lawsuit concerning a chlorine caustic plant formerly owned by the Company and by a \$4.7 million favorable swing in that portion of foreign exchange recorded in general corporate expenses.

The annual effective income tax rate of 45.8% was higher than last year's rate principally due to an increase in the foreign tax component.

1976 Compared with 1975

Consolidated sales increased \$82.6 million (11%) with all three worldwide product sales groups contributing to the gain. The higher sales resulted primarily from increased unit volume in most major product areas and price increases. Gains in roofing and sheet vinyl products in the U.S. renovation market were the major contributors to the \$49.4 million (13%) increase in Building Materials sales. Chemical sales increased \$13.7 million (8%) reflecting growth in all major product lines except agricultural chemicals, which declined sharply. Photo & Repro sales improved \$19.5 million (9%) largely as a result of industrial photo and business forms operations gains.

Direct operating profit declined \$10.1 million (10%) principally as a result of inability to pass on higher manufacturing costs and operating expenses. The Photo & Repro group was most severely affected as earnings declined \$4.1 million to \$2.2 million in 1976. Chemical earnings were off \$2.2 million (5%) to \$40.9 million reflecting an unfavorable change in product mix due to decreased sales of agricultural chemicals, offset by increases in sales of other lower-margin products. Building Materials profit declined \$3.8 million (8%) to \$44.1 million primarily as a result of generally higher costs of raw materials, energy, labor and distribution.

Interest expense declined as a result of lower interest rates. Other general corporate expenses increased \$4.4 million (27%) compared with 1975 primarily due to a nonrecurring \$4.0 million nontaxable gain on the sale of technology to the GAF/Hüls joint venture. A \$2.5 million unfavorable swing in that portion of foreign exchange included in general corporate expenses also contributed to the above increase. Legal expenses related to the lawsuit against Eastman Kodak increased sharply as the result of intensified preparation for trial.

The annual effective income tax rate of 41.3% was higher than last year's rate principally as a result of the nontaxable nature of the above mentioned \$4.0 million gain realized in 1975.

Prior Years

In 1974, a pre-tax profit of \$5.5 million was realized on the repurchase of 5% convertible subordinated notes. Sale of three properties resulted in pre-tax gains amounting to \$1.4 million. A \$5.0 million provision for relocation costs was recorded in connection with the transfer of certain administrative activities to Wayne, New Jersey. All of these were classified as other general corporate expense.

In 1973, a \$6.4 million pre-tax profit was realized on repurchase of 5% convertible subordinated notes, which partly offset other general corporate expense.

Item 3. Properties.

The Company's major plants are as follows:

Chemical: Calvert City, Kentucky; Linden, New Jersey; Rensselaer, New York; Texas City, Texas; Chattanooga, Tennessee; Annapolis, Missouri; Bound Brook, New Jersey; Charmian and Erie, Pennsylvania; and Kremlin, Wisconsin. The Company owns rock quarries at Annapolis, Missouri; Charmian, Pennsylvania; and Kremlin, Wisconsin.

Photo & Repro: Binghamton, New York; La Habra, California; Sint-Niklaas, Belgium; Progress, Oregon; Vestal, New York; Johnson City, New York; Colnbrook, England; Delft, The Netherlands; Shelby, Ohio; Arlington, Texas; and Sydney, Australia.

Building Materials: Mobile, Alabama; Long Beach, California; Denver, Colorado; Tampa, Florida; Savannah, Georgia; Joliet, Illinois; Mount Vernon, Indiana; Baltimore, Maryland; Millis, Massachusetts; Minneapolis, Minnesota; Kansas City and St. Louis, Missouri; Gloucester City and South Bound Brook, New Jersey; Vails Gate, New York; Erie and Whitehall, Pennsylvania; and Dallas, Texas.

With the exception of the plant located in Annapolis, Missouri, which is leased to the Company, the above mentioned properties are owned by the Company in fee. That portion of the plant (building and certain equipment only) at Texas City, Texas which produces AMIBEX®, an agricultural chemical sold to Amchem, is owned by that company.

The Company also owns or leases many other smaller plants, research laboratories, sales offices and distribution warehouses in the United States and elsewhere.

Locations in Los Angeles, California; Glenville, Connecticut; Kansas City, Kansas; Franklin, Massachusetts; Newburgh and Rensselaer, New York; Charlotte, North Carolina; Philadelphia, Pennsylvania; Westerly, Rhode Island; Houston and San Antonio, Texas; and Milwaukee, Wisconsin are being sold.

The Company believes that in general these plants and facilities, which are of widely varying ages and of different types of construction, have been adequately maintained, are in good condition, and are suitable and adequate for the Company's operations. Each plant has adequate transportation facilities for both raw materials and finished products.

The executive offices of the Company and a substantial portion of its administrative offices are housed in approximately 160,000 square feet of leased space at 140 West 51st Street, New York, New York. The WNCN-FM studio and GAF Broadcasting Company, Inc. offices are at 1180 Avenue of the Americas.

In July 1972, the Company leased certain laboratory facilities and approximately 100 acres of land in Wayne, New Jersey at which it consolidated a number of its research and development operations. An office building, completed in 1974, houses the Company's general administrative and clerical personnel and its principal electronic data processing facilities. The Wayne lease is capitalized in accordance with current accounting practice. See Note 13 of Notes to Consolidated Financial Statements.

Item 4. Parents and Subsidiaries.

The Registrant has no parent.

All subsidiaries named below are included in the Consolidated Financial Statements.

	<u>Jurisdiction of Incorporation</u>	<u>Percentage of Voting Securities Owned</u>
Domestic		
American Felt Company	New Jersey	100%
CoMo Photo Company	Iowa	100
54-36 Inc.	Delaware	100
GAF Broadcasting Company, Inc.	Delaware	100
GAF Communications, Inc.	Delaware	100
GAF Export Corporation	Delaware	100
GAF Hawaii Inc.	Hawaii	100
GAF International Corporation	Delaware	100
GAF Realty Corporation	Delaware	100
Genail Realty Corporation	New York	100
General Aniline & Film Corporation	Delaware	100
Lenco Photo Product, Inc.	Delaware	100
The L. L. Cook Company, Inc.	Wisconsin	100
Foreign		
GAF (Belgium) N.V.	Belgium	100
GAF (Deutschland) G.m.b.H.	F. R. Germany	100
GAF (France) S.A.	France	100
GAF (Norge) A/S	Norway	100
GAF (Svenska) A.B.	Sweden	100
Sawyer's (Nederland) N.V.	The Netherlands	100
Sawyer's Photographic Products (U.K.) Ltd.	U.K.	100
GAF (Canada) Ltd.	Canada	100
GAF Corporation de Mexico, S.A. de C.V.	Mexico	100
GAF (Danmark) A/S	Denmark	100
GAF do Brasil Industria e Comercio Ltda.	Brazil	100
GAF (Great Britain) Ltd.	U.K.	100
Insulecto Ltd.	U.K.	100
J. A. Reynolds & Co.	U.K.	100
Plan Reproductions Co., Ltd.	U.K.	100
The Drawing Office Supplies Ltd.	U.K.	100
Vega-Repro Ltd.	U.K.	100
GAF (Hellas) S.A.	Greece	100
GAF (Hong Kong) Ltd.	Hong Kong	100
GAF-Hüls Chemie G.m.b.H.	F. R. Germany	50(1)
GAF (Ireland) Ltd.	Ireland	100
GAF (Israel) Ltd.	Israel	100
GAF (Italy) S.r.l.	Italy	100
GAF (Japan) Ltd.	Japan	100
Sawyer's Japan Ltd.	Japan	100
GAF (Korea) Ltd.	Korea	100
GAF (Nederland) B.V.	The Netherlands	100
Nederlandse Document Reproductie B.V.	The Netherlands	100
Micovilm N.V.	The Netherlands	100
GAF (1972) Pty. Ltd.	N.S.W. (Australia)	100
GAF (Australasia) Pty. Ltd.	N.S.W. (Australia)	100
Design Finance Pty. Ltd.	N.S.W. (Australia)	100

(1) Included in the Consolidated Financial Statements on the equity method.

	Jurisdiction of Incorporation	Percentage of Voting Securities Owned
Diazo Wholesale Pty. Ltd.	N.S.W. (Australia)	100%
Drawing Office Industries Pty. Ltd.	N.S.W. (Australia)	100
Harding and Halden Pty. Ltd.	N.S.W. (Australia)	100
Commercial Copying Co. Pty. Ltd.	N.S.W. (Australia)	100
GAF (N.S.W.) Pty. Ltd.	N.S.W. (Australia)	100
Max Wurcker (Buyers) Pty. Ltd.	N.S.W. (Australia)	100
Micro Reprographics Pty. Ltd.	N.S.W. (Australia)	90
GAF (New Zealand) Ltd.	New Zealand	100
GAF (Qld) Pty. Ltd.	Qld. (Australia)	100
GAF (S.A.) Pty. Ltd.	S.A. (Australia)	100
GAF (Vic.) Pty. Ltd.	Vic. (Australia)	100
GAF (W.A.) Pty. Ltd.	W.A. (Australia)	100
Prestige Collections Pty. Ltd.	N.S.W. (Australia)	100
GAF (Österreich) G.m.b.H.	Austria	100
GAF (Philippines) Inc.	Philippines	100
GAF (Singapore) Private Ltd.	Singapore	100
GAF (South Africa) (Pty.) Ltd.	South Africa	100
GAF (Suomi) Oy	Finland	100
GAF (Switzerland) A.G.	Switzerland	100
Sawyer's Asia Ltd.	India	49(1)

(1) Included in the Consolidated Financial Statements on the equity method.

Individual financial statements of these subsidiaries have been omitted because they are immaterial.

Item 5. *Legal Proceedings*

On April 30, 1973 the Company commenced an antitrust action against Eastman Kodak Company. This action is described under the caption "Photo & Repro — Recent Developments."

The Company and Amchem have been involved in litigation against one another in several jurisdictions throughout the world. The litigation relates to a plant growth regulator which is sold by Amchem as ETHREL® and by the Company as CEPHA®. In several European countries and in the United States Patent and Trademark Office, the litigation consists of interference proceedings. The interference proceedings brought by the Company in the United States were dismissed and in April 1975 a patent relating to certain parts of its application issued to Amchem. This dismissal is currently being appealed. In addition, in June 1975 the Company commenced a declaratory judgment proceeding in the United States District Court for the Eastern District of Pennsylvania seeking to have the patent granted to Amchem declared invalid and to obtain other appropriate relief. Further proceedings in various European countries are awaiting resolution of the United States actions. In a separate action brought by the Company in the United States District Court for the Eastern District of Pennsylvania in 1972 the Court granted Amchem's motion for summary judgment dismissing the Company's suit which sought the assignment of the Company of all Amchem's foreign use patents on the invention of the plant growth regulator and the establishment of a constructive trust in favor of the Company with respect to all of Amchem's profits on ETHREL® sales. The Company successfully appealed the decision to the United States Court of Appeals for the Third Circuit and the case has been remanded for trial. In another action brought by Amchem in the United States District Court for the Northern District of Georgia, the Court entered judgment dismissing Amchem's suit seeking to cancel the Environmental Protection Agency registration which the Company had obtained for CEPHA®, upon the theory that the Company had obtained such registration pursuant to procedures inconsistent with the Federal Insecticide, Fungicide and Rodenticide Act, as amended. Amchem appealed from this judgment and the United States Court of Appeals for the Fifth Circuit remanded the matter to the district court for the purpose of determining the effect, if any, of recent amendments

of that act upon that court's judgment. Upon remand, the district court ruled in the Company's favor, determining that such amendments had no effect upon the outcome. Amchem is appealing this ruling. In July 1977 Amchem was acquired by Union Carbide Corp.

In 1974, the Company entered a plea of *nolo contendere* with respect to an indictment on charges of engaging in a combination and conspiracy to fix, raise, and maintain prices of dyes in the United States in violation of Section 1 of the Sherman Act. The federal government simultaneously brought a civil action. On April 20, 1977 a final judgment was entered by consent in this civil action enjoining the alleged conspiracy and any other conspiracies or practices of a similar import.

In October 1977 the Company agreed to settle its lawsuit against BASF AG., pending in the United States District Court for the District of New Jersey, for a payment of \$2.25 million. The Company initiated the suit in October 1973, alleging that the BASF-designated chlorine caustic facility at the Company's Linden, New Jersey plant did not meet design specifications.

In November 1977 the Company agreed to settle a suit filed against it earlier in 1977 by United States Radium Corporation in New Jersey Superior Court. The action arose out of a dispute over the valuation of certain assets of United States Radium Corporation which the Company purchased in December 1976 and over a note given by the Company in partial payment of the purchase price. The settlement involved a reduction of the purchase price and a prepayment of the note at a discount.

As of March 28, 1978 the Company was a co-defendant in approximately 485 lawsuits involving alleged health claims of non-employees relating to the inhalation of asbestos fibers. In the two such lawsuits in which judgment after trial was entered against the Company, damages were awarded against a number of co-defendants, including the Company. The Company has settled certain other lawsuits involving similar claims. It is anticipated that additional suits may be filed by industrial insulation workers who have been exposed to asbestos dust at numerous construction sites where insulation materials manufactured by the Company and others were used. The Company has primary insurance coverage, which is presently subject to a \$100,000 deductible for legal fees and costs of settlement or judgment as to each case, with respect to actions of this type and was previously subject to a lower deductible or to no deductible. The Company also has certain excess liability coverage. The applicable primary insurance deductible, if any, with respect to certain insurance claims is subject to dispute. On March 17, 1978 the Company filed an action seeking a declaratory judgment that insurers are responsible for coverage of injuries resulting from exposure to asbestos during the periods of their respective policies. Also, a number of employees and former employees have filed claims for diseases associated with the inhalation of asbestos fibers under applicable workmen's compensation laws. The Company is self-insured with respect to some of these claims, a number of which have been settled. The cost to the Company to date of such settlements and awards in connection with these workmen's compensation claims is approximately \$795,000.

The Company is a defendant (generally one of several) in a number of cases and claims involving allegedly defective roofing. While the amounts claimed in a number of these cases are substantial, the recovery, if any, from the defendants is frequently apportioned among them, thus reducing the burden of such judgments or settlements.

The United States Environmental Protection Agency ("EPA") issued a Notice of Violation and Opportunity for Hearing dated April 15, 1977 against the registrant. The Agency alleged that the Company did not have a valid Spill Prevention Control and Countermeasure Plan for its Houston, Texas facility and proposed a \$5,000 penalty. The Agency formally withdrew this Notice on August 2, 1977.

The EPA issued an Administrative Order on October 6, 1977 for alleged violation of the conditions of the Company's National Pollution Discharge Elimination System permit for its Chattanooga, Tennessee plant. The permit required that the Company's wastewater be discharged into the City of Chattanooga sewer system by June 30, 1977. The Company submitted a formal response to this Order to which the EPA has not yet replied.

The United States Coast Guard on October 21, 1977 issued a Notice of Violation with respect to an alleged asphalt spill at the Company's Savannah, Georgia plant on July 8, 1977. A penalty of \$1,000 was proposed. The Company has obtained an extension of time in which to file a response.

The Company entered a plea of *nolo contendere* on January 9, 1978 to a misdemeanor charge of water pollution brought by the Assistant District Attorney of Harris County, Texas on December 14, 1977 before the County Criminal Court of Harris County on behalf of the Water Resource Department of the State of Texas. The Company was assessed a fine of \$350 and costs.

Item 6. Increases and Decreases in Outstanding Securities and Indebtedness.

(a) Equity securities.

	<u>\$1.20 Convertible Preferred Stock</u>	<u>Common Stock</u>
Number of shares outstanding at December 31, 1976	3,029,602	13,233,748
Conversion of Preferred Stock (various dates in 1977)	(45)	55
Shares reacquired under the Restricted and Unrestricted Stock Purchase Plan:		
February 8, 1977	(2,000)	
March 7, 1977	(8,000)	
September 23, 1977	(2,000)	
November 10, 1977	(5,000)	
December 8, 1977	(2,000)	(19,000)
Number of Shares outstanding at December 31, 1977	<u>3,029,557</u>	<u>13,219,803</u>

STOCK OPTION PLANS

	<u>1965 Plan</u>	<u>1975 Plan</u>
Number of Stock Options outstanding at December 31, 1976	293,690	—
Options Issued	—	264,000
Options terminated -- (various dates in 1977)	(49,750)	—
Number of Stock Options outstanding at December 31, 1977	<u>243,940</u>	<u>264,000</u>
	<u>5% Convertible Subordinated Notes</u>	<u>5½% Convertible Subordinated Notes</u>
Principal amount outstanding at December 31, 1976	\$8,200,000	\$ 3,000,000
Annual prepayment of principal on April 1, 1977	—	(200,000)
Principal amount outstanding at December 31, 1977	<u>\$8,200,000</u>	<u>\$ 2,800,000</u>

(b) In a report on Form 10-Q for the quarter ended October 2, 1977 in Part II, Item 5, the issuance of \$10,000,000 of pollution control bonds by the New Jersey Economic Development Authority and the guarantee thereof by the registrant was disclosed.

(c) During the fourth quarter of registrant's fiscal year, the amount of debt securities or indebtedness outstanding was not increased or decreased through one or more transactions, so as to result in the aggregate amount of all such increases or decreases not previously reported exceeding 5% of the outstanding securities or indebtedness of the affected class.

Item 7. Changes in Securities and Changes in Security for Registered Securities.

Item 7 is omitted pursuant to its terms as such information was previously disclosed in a report on Form 10-Q.

Item 8. Defaults upon Senior Securities.

There has not been any material default in the payment of principal, interest, or a sinking or purchase fund installment, or any other material default not cured within 30 days, with respect to any indebtedness of the registrant or any of its significant subsidiaries exceeding 5 percent of the total assets of the registrant and its consolidated subsidiaries. No material arrearage in the payment of dividends has occurred, nor has there been any other material delinquency not cured within 30 days, with respect to any class of preferred stock of the registrant which is registered under the Securities Exchange Act of 1934 or which ranks prior to any class of securities so registered, or with respect to any class of preferred stock of any significant subsidiary of the registrant.

Item 9. Approximate Number of Equity Security Holders.

Holders of outstanding equity securities at February 28, 1978:

<u>(1) Title of Class</u>	<u>(2) Number of Record Holders</u>
Preferred Stock (\$1 par value)	8,185
Common Stock (\$1 par value)	61,511
5% Convertible Subordinated Notes	12
5½% Convertible Subordinated Notes	3

Item 10. Submission of Matters to a Vote of Security Holders.

Item 10 is omitted pursuant to its terms as such information was previously disclosed in a report on Form 10-Q.

Item 11. Executive Officers of the Registrant.

The names and ages of the executive officers of the Registrant as of March 25, 1978, the date from which they have served as officers, and their present positions with the Registrant are as follows:

Jesse Werner	61	January 1959	Chairman of the Board and Chief Executive Officer
Philip B. Dalton	54	September 1964	President and Chief Operating Officer
Juliette M. Moran	60	October 1967	Executive Vice President
James T. Sherwin	44	June 1971	Executive Vice President
Frank T. Campagna	52	July 1973	Senior Vice President (International)
James M. Cloney	59	August 1966	Senior Vice President
R. Power Fraser, Jr.	54	June 1968	Senior Vice President (Photo & Repro)
John F. Gow	56	June 1971	Senior Vice President (Personnel Relations)
Joseph G. Hall	58	May 1970	Senior Vice President (Building Materials)
Jay R. Olson	44	September 1970	Senior Vice President (Finance)
Jack Scheckowitz	50	January 1972	Senior Vice President (Consumer Products)
John A. Brennan	46	January 1977	Vice President (Photo & Repro Marketing)
John J. Butler	44	October 1972	Vice President (Building Materials Marketing)
George F. Dappert	53	November 1974	Vice President (International Manufacturing)
Thomas A. Dent	56	October 1967	Vice President (Technical Services)
Leo J. Faneuf	52	November 1974	Vice President (Building Materials Manufacturing)
Jerome K. Full	51	January 1978	Vice President (Public Relations)
Simon W. Kantor	53	August 1972	Vice President (Research and Development)
Frederick W. McNabb, Jr.	45	November 1974	Vice President, General Counsel and Secretary
Richard C. Mullen	50	November 1974	Vice President (Photo & Repro Manufacturing)
Alfred P. Rimlinger	61	January 1972	Vice President (International Services)
Raymond W. Smith	39	November 1974	Vice President (Chemical Marketing)
Richard F. Smith	39	November 1974	Vice President (Commercial Development)
A. Eugene Stillman	53	September 1975	Vice President and Controller
Frank E. Wetherill	56	April 1975	Vice President (Chemical Manufacturing)
Philip S. Gillcrist	47	August 1977	Treasurer

Dr. Werner is a member of the Executive Committee of the Board of Directors of the Registrant. Dr. Werner, Mr. Dalton, Miss Moran and Mr. Sherwin are directors of the Registrant.

All of the executive officers, except Mr. Full and Mr. Gillcrist, who were elected at meetings of the Board of Directors on January 19, 1978 and July 21, 1977, respectively, were elected by the Board of Directors on April 26, 1977. All of the executive officers were elected to serve without a fixed term of office. There is no family relationship between any of the executive officers.

All of the executive officers named above have been in the employ of the Registrant or its subsidiaries for more than five years except as follows: Jerome K. Full was, prior to joining the Registrant in January 1978, associated with Sontheimer and Company, a public relations agency and prior to 1974 was associated with Eastern Airlines, Inc. Prior to joining the Registrant in 1974 Frederick W. McNabb, Jr. was Vice President, General Counsel and Secretary of Continental Investment Corporation. Prior to joining the Registrant in 1975, A. Eugene Stillman was Vice President-Finance of Bausch & Lomb, Inc.

Item 12. Indemnification of Directors and Officers.

Item 12 is omitted pursuant to General Instruction H(b), as the information required is unchanged from that set forth in the Registrant's Form 10-K filed for the year ended December 31, 1971.

Item 13. Financial Statements, Exhibits Filed and Reports on Form 8-K.

(a)(1) Financial Statements:

The following financial statements of GAF Corporation and Consolidated Subsidiaries are contained on the indicated pages:

	<u>Page Number</u>
Opinion of Independent Certified Public Accountants	19
Consolidated Statements of Income for the two years ended December 31, 1977	20
Consolidated Balance Sheets as of December 31, 1977 and 1976	21
Consolidated Statements of Changes in Financial Position for the two years ended December 31, 1977	23
Consolidated Statements of Stockholders' Equity for the two years ended December 31, 1977	24
Notes to Consolidated Financial Statements	25

The following schedules for the two years ended December 31, 1977 are contained on the indicated pages:

Schedule V — Property, Plant and Equipment	S-1
Schedule VI — Accumulated Depreciation of Property, Plant and Equipment	S-2
Schedule VII — Intangible Assets	S-3
Schedule VIII — Accumulated Amortization of Intangible Assets	S-4
Schedule XII — Valuation and Qualifying Accounts and Reserves	S-5

Separate financial statements of GAF Corporation are omitted because its total assets, exclusive of investments in and advances to consolidated subsidiaries, constitute 75 per cent or more of the total assets shown by the latest consolidated balance sheet filed and total gross revenues for the latest period for which profit and loss statements are filed, exclusive of interest and dividends received from, or equity in income of, the consolidated subsidiaries, constitute 75 per cent or more of the total gross revenues shown by the consolidated profit and loss statements filed.

Schedules, other than those listed above, are omitted because of the absence of the conditions under which they are required or because the required information, where material, is shown in the financial statements or the notes thereto.

(2) Exhibits:

- A(1) —Amendment and Complete Restatement of GAF Salaried Employees' Retirement Plan, Effective January 1, 1976.
- (2) —Amendment and Complete Restatement of GAF Pension Plan "IV", Effective January 1, 1976.
- (3) —The Retirement Plan for Hourly Paid Employees of GAF Corporation, Appendix.
- (4) —GAF Corporation Excess Benefit Plan.
- B(3)(i) — Note Agreement Dated January 31, 1977.
- (ii) —(First Amendatory) Installment Sale Agreement Dated as of July 1, 1977.
- (iii) —Installment Sale Agreement (Bound Brook Project) Dated as of July 1, 1977.
- (iv) —Installment Sale Agreement (GAF Gloucester Project) Dated as of July 1, 1977.
- (5) —GAF Corporation TRASOP, Effective January 1, 1976, as amended December 13, 1977.
- (9) —Agreement made April 26, 1977 between GAF Corporation and Dr. Jesse Werner.
- C(1) —Computation of Earnings per Common Share for the Five Years Ended December 31, 1977.

(b) Reports on Form 8-K. No reports on Form 8-K were filed during the last quarter of the period covered by this report.

PART II

Items 14 through 18 are omitted pursuant to General Instruction H(a) since the Registrant has filed with the Commission pursuant to Regulation 14A a definitive proxy statement for its 1978 Annual Meeting of Stockholders, which involves the election of directors.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAF CORPORATION
(Registrant)

By

JAMES T. SHERWIN
James T. Sherwin
Executive Vice President

Date: March 31, 1978

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

GAF Corporation:

We have examined the consolidated financial statements and schedules of GAF Corporation and its consolidated subsidiaries, listed under Item 13(a)(1), which you are filing as part of your Annual Report (Form 10-K) to the Securities and Exchange Commission for the year ended December 31, 1977. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the companies at December 31, 1977 and 1976 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for leases described in Note 13 to the financial statements; and the schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

HASKINS & SELLS

New York, New York
February 13, 1978

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Note 2)

	<u>Year Ended December 31,</u>	
	<u>1977</u>	<u>1976</u>
	<u>Dollars in Thousands</u>	
Net Sales	\$442,661	\$452,896
Costs and Expenses:		
Cost of products sold	681,737	607,867
Distribution and selling	129,104	114,721
Advertising	15,540	13,971
Research and development	12,038	11,912
Administrative and general	45,965	39,179
Interest (Notes 8 and 13)	20,216	17,097
Total Costs and Expenses	902,600	804,547
Other Income:		
Income from contract termination (Note 3)	3,700	—
Other — net (Note 4)	5,730	991
Total Other Income	9,430	991
Income from Continuing Operations Before Income Taxes	49,291	49,140
Income Taxes (Note 7)	22,588	20,440
Income from Continuing Operations	26,703	28,700
Discontinued Segments (Note 2):		
Operating losses, net of income tax benefits of \$6,300,000 in 1977 and \$10,100,000 in 1976	(6,821)	(9,000)
Estimated loss from disposition, net of income tax benefit of \$54,300,000	(66,839)	—
Loss from Discontinued Segments	(73,660)	(9,000)
Net Income (Loss)	\$(46,957)	\$ 19,700
Less Preferred Stock Dividend Requirements	3,636	3,635
Net Income (Loss) Applicable to Common Stock	\$(50,593)	\$ 16,065
Weighted Average Number of Common Shares Outstanding	13,252,000	13,303,000
Earnings per Common Share:		
Primary		Dollars
Continuing	\$ 1.74	\$1.88
Discontinued	(5.56)	(.67)
Net Income (Loss)	\$(3.82)	\$1.21
Fully Diluted		
Continuing	\$ 1.55	\$1.66
Discontinued	(4.23)	(.52)
Net Income (Loss)	\$(2.68)	\$1.14

See Notes to Consolidated Financial Statements.

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31,	
	1977	1976
	Dollars in Thousands	
CURRENT ASSETS		
Cash	\$ 10,129	\$ 18,306
Marketable securities, at cost which approximates quoted market value	590	442
Accounts receivable -- trade, less allowance for doubtful accounts -- 1977, \$4,949,000; 1976, \$6,444,000	142,203	156,128
Accounts receivable -- other	8,848	10,687
Inventories		
Finished goods	100,851	123,249
Work in process	26,952	51,166
Raw materials and supplies	66,573	84,082
Total inventories	194,376	258,499
Prepaid expenses	8,685	7,264
Income tax benefits (Note 2)	18,571	—
Assets of discontinued segment: at estimated realizable value (Note 2)	71,744	—
Total current assets	464,146	451,317
PROPERTY, PLANT AND EQUIPMENT at cost (Notes 6 and 13)		
Land and land improvements	16,287	17,645
Buildings and building equipment	113,399	121,166
Machinery and equipment	253,464	277,708
Construction in progress	25,285	29,091
Total property, plant and equipment	414,435	445,644
Less accumulated depreciation	151,498	170,510
Property, plant and equipment -- net	262,937	275,134
OTHER ASSETS		
Cost in excess of net assets acquired	25,806	34,574
Other investments and advances	3,516	8,203
Other assets	6,009	8,136
Total other assets	35,331	50,913
TOTAL ASSETS	\$762,414	\$777,364

See Notes to Consolidated Financial Statements.

CAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES

	December 31,	
	1977	1976
	Dollars in Thousands	
CURRENT LIABILITIES		
Notes payable (Note 8)		
Banks	\$ 6,401	\$ 4,072
Commercial paper	—	5,200
Other (foreign)	26,451	14,412
Current portion of long-term debt (Notes 8 and 13)	6,581	4,111
Accounts payable		
Trade	61,956	60,528
Other	9,085	7,327
Accrued liabilities		
Payroll	4,958	4,765
Retirement plan	10,155	10,394
Other taxes	3,341	3,787
Interest	5,340	2,895
Other (Note 2)	49,485	23,731
United States and foreign income taxes	1,987	4,278
Total current liabilities	186,340	145,500
LONG-TERM DEBT LESS CURRENT PORTION (Note 8)	191,865	198,270
DEFERRED CREDITS		
Income taxes	20,845	39,385
Investment tax credit	2,581	3,153
Total deferred credits	23,426	42,538
OTHER LIABILITIES (Notes 2 and 13)	31,112	3,109
COMMITMENTS AND CONTINGENT LIABILITIES (Note 13)		
STOCKHOLDERS' EQUITY		
Preferred Stock, \$1 par value; authorized 6,000,000 shares; \$1.20 convertible series issued — 1977, 3,105,957 shares; 1976, 3,106,002 shares; at assigned value of \$1.25 per share (liquidation value 1977, \$83,313,000) (Notes 9 and 10)	3,883	3,883
Common Stock, \$1 par value; authorized 25,000,000 shares; issued — 1977, 13,770,010 shares; 1976, 13,770,347 shares (Notes 9 and 10)	13,770	13,770
Additional paid-in capital	53,846	53,629
Retained earnings (Note 8)	263,542	321,935
Total	335,041	393,217
Less stock held in treasury, at cost:		
Common — 1977, 550,207 shares; 1976, 531,599 shares	4,438	4,338
Preferred — 76,400 shares in 1977 and 1976	932	932
Total stockholders' equity	329,671	387,947
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$762,414</u>	<u>\$777,364</u>

See Notes to Consolidated Financial Statements.

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31,	
	1977	1976
	Dollars in Thousands	
Working Capital Provided:		
Continuing Operations:		
Income from Continuing Operations	\$ 26,703	\$ 28,700
Charges (credits) not affecting working capital:		
Depreciation	26,012	24,325
Deferred income taxes	4,200	4,154
Translation (gains) losses — noncurrent portion	1,811	(351)
Other	4,385	2,178
Working Capital provided	<u>62,911</u>	<u>59,006</u>
Discontinued Segments:		
Loss from Discontinued Segments	(73,660)	(9,000)
Charges (credits) not affecting working capital:		
Deferred income tax benefits	(24,100)	—
Provision for employee benefits — noncurrent portion	20,200	—
Provision for loss on disposition of fixed assets	19,628	—
Write-off of intangible assets — noncurrent portion	11,153	—
Other	12,412	3,869
Working Capital used	<u>(34,367)</u>	<u>(5,131)</u>
Total working capital provided from operations	<u>28,544</u>	<u>53,875</u>
Increases in long-term debt	11,945	118,465
Fixed assets of discontinued segments held for sale	11,566	—
Deferred income taxes — other	1,360	—
Other	1,287	(486)
Total	<u>54,702</u>	<u>171,854</u>
Working Capital Applied:		
Additions to property, plant and equipment	52,266	46,391
Cash dividends	11,436	11,311
Reductions in long-term debt	19,011	72,427
Property, plant and equipment of businesses acquired	—	2,155
Other noncurrent assets of businesses acquired	—	1,721
Total	<u>82,713</u>	<u>133,865</u>
Increase (Decrease) in Working Capital	<u>(28,011)</u>	<u>37,989</u>
Working Capital, January 1	<u>305,817</u>	<u>267,828</u>
Working Capital, December 31	<u>\$277,806</u>	<u>\$305,817</u>
Analysis of Changes in Working Capital		
Increase (decrease) in current assets:		
Cash	\$ 823	\$ (5,257)
Marketable securities	148	(3,733)
Accounts receivable	(15,764)	5,423
Inventories	(64,114)	27,549
Prepaid expenses	1,421	741
Income tax benefits	18,571	—
Assets of discontinued segments	71,744	—
Total	<u>12,829</u>	<u>24,723</u>
(Increase) decrease in current liabilities:		
Notes payable	(9,168)	(1,930)
Current portion of long-term debt	(2,470)	23,572
Accounts payable	(3,786)	(6,682)
Accrued liabilities	(27,707)	(3,487)
United States and foreign income taxes	2,291	1,793
Total	<u>(40,840)</u>	<u>13,266</u>
Increase (Decrease) in Working Capital	<u>\$ (28,011)</u>	<u>\$ 37,989</u>

See Notes to Consolidated Financial Statements.

GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 1977 and 1976

	Preferred Stock		Common Stock \$1 Par Value		Retained Earnings	Treasury Stock		
	Number of Shares Issued	Assigned Value	Number of Shares Issued	Additional Paid-In Capital		Number of Shares		Cost
						Pre- ferred	Com- mon	
Balance, December 31, 1975 ..	3,105,706	\$3,882,000	13,764,090	\$53,151,000	\$313,546,000	76,400	534,949	\$5,312,000
Net income					19,700,000			
Cash dividends:								
Preferred stock — \$1.20 per share					(3,635,000)			
Common stock — \$.58 per share					(7,676,000)			
Stock options exercised			6,060	84,000			(8,350)	(69,000)
Issuance of shares under an incentive compensation plan assumed by the Company ..	454	1,000		9,000				
Conversion of preferred stock ..	(158)		197					
Shares reacquired under the Restricted and Unrestricted Stock Purchase Plan							5,000	27,000
Amortization of excess of quoted market value over ag- gregate sales price of re- stricted shares sold under the Stock Purchase Plan (Note 1a)				385,000				
Balance, December 31, 1976 ..	3,106,002	\$3,883,000	13,770,347	\$53,629,000	\$321,935,000	76,400	531,599	\$5,270,000
Net loss					(46,957,000)			
Cash dividends:								
Preferred stock — \$1.20 per share					(3,636,000)			
Common stock — \$.60 per share					(7,800,000)			
Treasury stock issued to repre- sent unexchanged shares in predecessor companies (pre- viously deemed issued)			(392)	(3,000)			(392)	(3,000)
Shares reacquired under the Restricted and Unrestricted Stock Purchase Plan							19,000	103,000
Conversion of Preferred Stock ..	(45)		55					
Amortization of excess of quoted market value over aggregate sales price of restricted shares sold under the Stock Purchase Plan (Note 10)				220,000				
Balance, December 31, 1977 ..	<u>3,105,957</u>	<u>\$3,883,000</u>	<u>13,770,010</u>	<u>\$53,846,000</u>	<u>\$263,542,000</u>	<u>76,400</u>	<u>550,207</u>	<u>\$5,370,000</u>

See Notes to Consolidated Financial Statements.